Testimony of
W. Michael VonSteuben

DELMARVA POWER & LIGHT COMPANY
TESTIMONY OF W. MICHAEL VONSTEUBEN
BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION
CONCERNING AN INCREASE IN ELECTRIC BASE RATES
DOCKET NO. 11-___

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1. Q: <u>Please state your name and position, and business address.</u>

A: My name is W. Michael VonSteuben. I am Manager, Revenue Requirements and Regulatory Accounting, in the Regulatory Affairs Department of Pepco Holdings, Inc. (PHI), which is located at 401 Eagle Run Road, Newark, DE 19702. I am testifying on behalf of Delmarva Power & Light Company (Delmarva or the Company).

2. Q: <u>Please state your educational background and professional qualifications.</u>

A: I received a Bachelor of Science Degree in Business Administration from the University of Delaware in 1976. In December 1978, I joined Delmarva in the Payroll section of the Accounting Department. In 1980, I was promoted into the Plant Accounting Department with responsibility related to the book and tax treatment of the Company's utility plant.

In September 1984, I was promoted to Senior Analyst in the Regulatory Practice Department. I was promoted to Staff Analyst in June 1987 and to Supervisor in March 1998. I was designated a Senior Regulatory Leader in 2000 and promoted to my current position in November 2004. My responsibilities include the coordination of revenue requirement determinations in Delaware, Maryland, New Jersey and the District of Columbia as well as coordinating various other regulatory compliance matters.

3. Q: **<u>Have you recently testified before the Delaware Public Service Commission?</u>**

A: Yes, I have. I have recently presented testimony as a witness before the Delaware Public Service Commission (DPSC or the Commission) in the Company's two most recent base rate proceedings, Electric Docket No. 09-414 and Gas Docket No. 10-237, as well as presented testimony before the Maryland Public Service Commission, the New Jersey Board of Public Utilities, the Public Service Commission of the District of Columbia and the Virginia State Corporation Commission.

4. Q: **<u>What is the purpose of your testimony?</u>**

A: The purpose of my testimony is to present and explain the basis for the development of the Company's Delaware Distribution-related Revenue Requirement request. My testimony will present the separation of Delmarva system costs into first a distribution component and then into the Delaware Distribution component. I also present the per-book Earnings and Rate Base for use in this filing along with the quantification and support of certain adjustments. I summarize the adjustments being proposed by all the witnesses as well as the revenue requirement request of the Company. I sponsor certain adjustments which are both described in my testimony and have supporting detail that can be found in Schedules WMV 1 – 18, which accompany this filing. I am also sponsoring certain Minimum Filing Requirements (MFR). These schedules, workpapers and the MFR were prepared under my direction and/or supervision.

In addition, I will discuss the returns that the Company has actually been earning on its rate base. I will demonstrate that the Company has been unable to earn its authorized returns using the current ratemaking formula. As a result, I will provide an analysis that will demonstrate the difference between the cost of service that the Company recognizes using proforma adjustments previously recognized by the Commission and the cost of service developed using the inputs supported by the Direct Testimony of Company Witness McGowan that will exist during the rate-effective period.

FILING REQUIREMENTS

5. Q: <u>What Minimum Filing Requirements (MFR) are you sponsoring?</u>

A: I am sponsoring the following filing requirements:

Schedule A	Period Definitions
Schedule C	Elements of the Increase & Items that Depart from Last Decision
Schedule 1	Financial Summary
Schedule 2	Rate Base Summary
Schedule 2A	Used and Useful Utility Plant
Schedule 2B	Intangible Assets
Schedule 2C	Accumulated Depreciation & Amortization, and Customer Advances
Schedule 2D	Accumulated Deferred Income Taxes & Investment Tax Credit
Schedule 2E	Materials and Supplies
Schedule 2F	Other Elements of Property and CWIP
Schedule 3	Summary of Net Operating Income

Schedule 3A, Page 1	Revenues
Schedule 3B	Operating Expenses
Schedule 3C	Payroll Costs
Schedule 3D	Executive Compensation
Schedule 3E	Sales Promotion and Advertising
Schedule 3F	Contributions
Schedule 3G	Association Dues
Schedule 3H	Rate Case Expense
Schedule 3I	Income Taxes and Provisions
Schedule 3J	Federal and State Income Taxes
Schedule 3K	Deferred Federal and State Income Taxes
Schedule 3L	Investment Tax Credit
Schedule 3M	Other Taxes
Schedule 3O	Other Income
Schedule 5	Revenue Conversion Factor

TEST PERIOD

6. Q: What are the test year and the test periods presented in this filing?

A: The test year, which is used for cost allocation purposes, is the actual twelve months data ending June 2011. The test period, which is used for revenue requirement purposes is the six months actual - six months forecast ending December 2011. The test period will be updated to the twelve months of actual information ending December 2011 during the course of this proceeding.

7. Q: <u>Based on precedent, is this an appropriate test period?</u>

A: Yes. While the use of fully forecasted test period would be the best basis for establishing rates for the rate-effective period, the Company's presentation using Commission precedent represents a reasonable basis for establishing the Company's revenue requirements for the rate effective period, the 12 months ending June 2013. With the adjustments presented in this filing, this test period provides a matching of revenues, expenses and rate base consistent with Commission regulations and is reasonable based on past precedent as the basis for establishing the Company's revenue requirements for the rate effective period.

8. Q: <u>Please describe how the Company plans on providing updated Test Period data to the Commission as required by the Minimum Filing Requirements.</u>

A: The test period is the six months actual and six months of forecasted data ending December 31, 2011. The MFR require that three additional months of total Company data be provided 60 days after the quarter closes. While the Company is only required to update that actual total Company data for the period July 2011 through September 2011, the Company will provide a complete updated fully adjusted test period based on all actual data for the twelve months ending December 31, 2011 to the Staff and all parties in March 2012. This will allow the Staff and parties adequate time to perform discovery and complete their analysis.

RATE INCREASE REQUEST

9. Q: **Have you prepared schedules that summarize the Company's rate increase request?**

A: Yes. Schedule WMV-1, Page 2 presents a summary of the necessary financial and accounting data for the test period ending December 31, 2011. Schedule WMV-1, Page 2 displays a fully adjusted rate of return of only 4.74%; this rate translates to a return on equity of 4.43%. Also listed on WMV-1, Page 2 is the responsible witness for each adjustment. Schedule WMV-2 provides the calculation of the increase in revenues necessary to earn the 7.87% rate of return supported by the Direct Testimony of Company Witness McGowan. This schedule supports an increase of $31,760,741 and the impact on customers is discussed in the Direct Testimony of Company Witness Santacecilia.

10. Q: **Please summarize the contents of Schedules WMV-1 and WMV-2.**

A: Schedule WMV-1, Page 1 presents the Company's unadjusted total system, total distribution and Delaware jurisdictional rate base and earnings results of operation for the provision of distribution service for the six months actual and six months of forecasted data ending December 31, 2011. Schedule WMV-1, Page 2 provides a summary of the earnings and rate base amounts for each ratemaking adjustment along with the responsible witness. Schedule WMV-2 provides the Company's proposed revenue requirement increase of $31,760,741.

11. Q: <u>Please describe the development of per books rate base and earnings.</u>

A: The rate base for the test year and test period is comprised of average balances and is summarized on Schedule WMV-1. Earnings for the test year and test period are also summarized on Schedule WMV-1.

The source of the data for the test year and test period consists of the Company's books and records provided in the Direct Testimony of Company Witness Kathleen White. The forecasted data has been similarly assembled and organized to provide the monthly data for the parties in this proceeding. Detail for the test year and test period can be found in the workpapers contained in Book 1 that accompanies the Company's Application.

Earnings include Operating Revenues less Operating Expense and Interest on Customer Deposits plus the Allowance for Funds Used During Construction (AFUDC), as shown on Schedule WMV-1. The per book rate base is detailed by component on Schedule WMV-1. Additions to rate base are included as they represent investment in facilities used to serve the Company's customers as well as investor-supplied working capital necessary for the Company's day-to-day operations. Certain items are deducted from rate base as they represent funds supplied by customers (or at least not investor-provided). Rate base includes Net Plant, Construction Work in Progress (CWIP), Materials and Supplies and Working Capital, less Accumulated Deferred Income Taxes, Unamortized Investment Tax Credits, Customer Advances and Customer Deposits.

DISTRIBUTION COST OF SERVICE

12. Q: Please discuss the development of Delmarva's cost of service on a distribution only-basis.

A: The basis for Delmarva's distribution-only cost of service is the distribution accounts as specified in the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. In addition, I have allocated to distribution a portion of other Company cost elements functionalized as general, intangible and miscellaneous. The result of this separation or functionalization of costs is shown in Schedule WMV-1.

13. Q: Please describe the detail provided on Schedule WMV-1.

A: Schedule WMV-1 shows the items of rate base, revenue, expense and return for Delmarva for the total Company in column (3), titled "Adjusted System Electric", and those same cost elements for the distribution function in Column (4), titled "Total Distribution". I then allocate these distribution costs to the Delaware jurisdiction. Column (3) shows total System Electric rate base of $1,272,027,342, total operating revenues of $1,087,801,721, total operating expenses of $1,002,144,565, and operating income of $85,657,156. As I described above, I separate each cost element into its Delaware distribution component. The Delaware distribution component is shown in column (5) of this schedule. The Delaware distribution rate base is $569,463,900, total operating revenues are $171,224,960, total operating expenses are $142,565,231, and operating income is $28,659,729.

14. Q: <u>How are system distribution costs developed?</u>

A: Delmarva's overall costs consist of supply, transmission and distribution-related costs. Distribution plant costs are those costs contained in the FERC distribution accounts, numbers 360 to 373. Distribution expense costs are those costs contained in the FERC distribution accounts (inclusive of Customer Accounts Expense, Customer Service and Informational Expenses, and Sales Expenses), numbers 580 through 916. The exception to this process is Account 904, Uncollectible Accounts, which has to be functionalized. Transmission plant costs are from the FERC's transmission accounts, numbered 350 through 359. Transmission expense costs are those costs contained in the FERC transmission accounts, numbers 560 through 573.

Other costs, such as General Plant and Administrative and General Expenses, are contained in FERC accounts that are not specific to the transmission and distribution functions and thus have to be functionalized to produce the distribution-related portion of these costs.

15. Q: <u>Was a lead/lag study prepared by the Company to determine the cash working capital requirement in its current filling?</u>

A: Yes. The results of the lead/lag study are reflected in Schedules WMV-3. The total per books distribution Delmarva Power cash working capital requirement is $19,666,611. The Delaware distribution cash working capital requirement is $10,694,758 as shown in Schedule WMV-3.

16. Q: <u>What period of time was used for preparing the lead/lag study?</u>

A: All transactions used in preparing the lead/lag study were from calendar year 2010.

17. Q: <u>Have the factors developed in the lead/lag study been applied to the test period results of operations?</u>

A: Yes. The cash working capital lag factors were computed on historic data and applied to the test period results of operations.

RATEMAKING ADJUSTMENTS

18. Q: <u>Please list the pro forma adjustments that you are sponsoring in this proceeding.</u>

A: The pro forma adjustments that I am sponsoring are as follows:

- Adjustment No. 1 – Weather Normalization;
- Adjustment No. 3 – Regulatory Commission Expense Normalization;
- Adjustment No. 5 – Uncollectible Expense Normalization;
- Adjustment No. 6 – Adjust Wage and Federal Insurance Contributions Act (FICA) Expense;
- Adjustment No. 7 – Remove Employee Association Expense;
- Adjustment No. 11 – Removal of Executive Incentive Compensation;
- Adjustment No. 12 – Removal of Certain Officer Compensation;
- Adjustment No. 13 – Storm Restoration Expense Normalization;
- Adjustment No. 14 – Amortize Hurricane Irene Costs;
- Adjustment No. 16 – Reflect Increased Customer Care Expense;

- Adjustment No. 21 – Reliability Plant Closing Adjustment from January 2011 to December 2011;
- Adjustment No. 22 – Proforma Forecasted Reliability Closings; and
- Adjustments No. 28 and No. 29 – Interest Synchronization and Cash Working Capital (CWC) for the proforma adjustments.

19. Q: <u>Why are you making these adjustments?</u>

A: These adjustments are being made to establish a level of earnings and rate base more representative of the rate effective period as a basis for providing just and reasonable rates. Many of these adjustments reflect previously approved ratemaking treatment by the Commission. Other adjustments have been made to assure that the rate effective period reflects a matching of all elements of the ratemaking formula for known and measurable changes. Workpapers supporting each of these adjustments are included in Book 4 of this filing.

20. Q: <u>Please describe Adjustment No. 1, Weather Normalization.</u>

A: Consistent with the adjustment approved by the Commission in Docket No. 09-414, this adjustment restates distribution sales to reflect normal weather conditions for the test period. In order for the test period to be representative of normal weather, test period sales and revenues must be adjusted. For the six months of data ending June 30, 2011, actual test period sales are 43,924 MWh above normal weather. Normal weather is defined in this calculation as the average number of Heating Degree Days (HDD) and Cooling Degree Days (CDD) in each month over the thirty year period 1980 to 2010. For an individual day, the number of the CDD or HDD that occur is defined as the difference between the average of the daily high and low temperature and a comfort threshold of 65 degrees Fahrenheit. If this difference is negative, it is set to zero to show that there was no heating or cooling load. For example, if the average of the daily high and low temperatures is 72 degrees Fahrenheit, there are 7 CDD and zero HDD; if the average temperature is 55 degrees, there are 10 HDD and zero CDD. Daily CDDs and HDDs are summed to yield monthly HDD or CDD, and then averaged by month over a rolling thirty-year period to yield monthly normal HDD or CDD. This adjustment was calculated using actual degree day data experienced during the test period and thirty-year average weather data based on data collected by the US National Oceanic and Atmospheric Administration (NOAA) at the weather station located at the Wilmington Airport. Once the normal sales were determined, the adjusted sales were then priced out by revenue class based on the average rate per kWh by revenue class. As shown on Schedule WMV-4, weather normalization of test period sales will result in a $514,774 decrease to test year operating income.

21. Q: <u>Please describe the adjustment made to restate Regulatory Commission Expense, Adjustment No. 3.</u>

A: Consistent with the treatment included in Docket Nos. 94-22, 03-127 and 05-304 and 09-414, the amount expensed in the test period was adjusted for two items. The first is to normalize the test period level of expense using a three-year average. The second item is to adjust the test period level of expense to reflect the cost of this filing, which includes the costs of Staff, amortized over a three-year period. This adjustment results in a $63,766 decrease to test year operating income and is detailed on Schedule WMV-5.

22. Q: <u>Please describe Adjustment No. 5, the adjustment made to Normalize the Company's Uncollectible Expense.</u>

A: Consistent with the treatment included in Docket Nos. 03-127, 05-304 and 09-414, I have normalized the Company's test period level of uncollectible expense using a three-year average of this expense. This adjustment detailed on Schedule WMV-6 and results in a $73,511 decrease to the test period operating income.

23. Q: <u>Please describe Adjustment No. 6, the adjustment made to reflect the Company's Proposed Wage and FICA Expense.</u>

A: Consistent with the treatment included in Docket Nos. 94-22, 03-127, 05-304, and 09-414, the Company's test period wage and FICA levels of expense were adjusted for the known price changes required to be made to be reflective of the rate effective period. These include:

- the actual non-union wage increase of 3.01% effective March 2011 for 2 months,
- an actual wage increase of 2.00% for IBEW Local 1238 effective in February 2011 for 1 month,
- an actual wage increase of 2.00% for IBEW Local 1307 effective in June 2011 for 6 months,
- an estimated non-union wage increase of 3.00% effective March 2012 for 12 months,

- an actual wage increase of 2.00% for IBEW Local 1238 effective in February 2012 for 12 months,
- an actual wage increase of 2.00% for IBEW Local 1307 effective in June 2012 for 12 months,
- an estimated non-union wage increase of 3.00% effective March 2013 for 4 months, and
- an estimated wage increase of 2.00% for IBEW Local 1238 effective in February 2013 for 5 months.

These wage increases have been applied to the Company's test period salaries and wages to be reflective of the rate effective period, July 2012 through June 2013. Updates to estimated information will be provided during the course of the proceeding. In addition to the wage increases that I have noted earlier, I am also supporting the amortization of the contractually-agreed to union lump-sum payment that was paid in 2010 to IBEW LUs 1238 and 1307 as part of the labor contracts with those bargaining units. I propose to amortize these costs over the three-year life of the associated labor contracts that are currently in effect. This wage-FICA adjustment is detailed on Schedule WMV-7.

24. Q: Please describe Adjustment No. 7, which is the adjustment to Remove Employee Association expense.

A: Consistent with past treatment including the treatment in the most recent proceeding, Docket No. 09-414, the amounts charged to expense for support of the Employees' Association was removed for ratemaking purposes. This adjustment is detailed on Schedule WMV-8 and results in a $57,289 increase to test year operating income.

25. Q: <u>Please describe Adjustment No. 11, which is the adjustment to Remove Executive Incentive Compensation Expense.</u>

A: This adjustment removes the test period level of expense associated with executive incentives. These "compensation at risk" payments are an important component of the Company's total executive compensation, and are likely to continue to be so in the future. I am excluding such amounts in light of the current economic environment. As displayed on Schedule WMV-9, the Company is removing $1,032,906 of test period O&M expense related to executive incentive compensation in this adjustment.

26. Q: <u>Please describe Adjustment No. 12, which is the adjustment to Remove Certain Officer Compensation.</u>

A: Consistent with the treatment approved in Docket No. 09-414, this adjustment removes the test level period of expense associated with certain officer compensation and perquisites. As displayed on Schedule WMV-10, the Company is removing $64,187 of test period O&M expense related certain officer compensation and perquisites.

27. Q: <u>Please describe Adjustment 13, which is the adjustment to Normalize Storm Restoration Expense.</u>

A: Consistent with the treatment approved in Docket No. 09-414, this adjustment normalizes non-Hurricane Irene storm expense using a three year average. This adjustment is detailed on Schedule WMV-11 and results in a $1,883,778 increase to test period operating income.

28. Q: <u>Please describe Adjustment 14, which is the adjustment to Amortize the Test Period Expense Associated with Hurricane Irene.</u>

A: During the test period, there is an estimated $3,545,197 of incremental expense related to the restoration efforts associated with Hurricane Irene. This adjustment removes the test period amount of $3,545,197 associated with Hurricane Irene and instead proposes amortizing this amount over a three-year period with the unamortized amount included in rate base. I will provide an update to this estimated amount during the course of this proceeding. This adjustment is detailed on Schedule WMV-12 and results in a $1,402,598 increase to test period operating income and an increase in rate base of $1,753,248.

29. Q: <u>Please describe Adjustment 16, which is the adjustment to Reflect Increased Expense Associated with Customer Care Resources.</u>

A: As Company Witness Dickerson describes in his Direct Testimony, this adjustment reflects the increase in expense associated with customer care resources for the rate effective period. This adjustment is detailed on Schedule WMV-13 and results in a $438,520 decrease to test period operating income.

30. Q: <u>Please describe Adjustment No. 21, which is the adjustment to reflect Reliability Plant Projects Added to Plant During the Test Period.</u>

A: Consistent with the treatment approved by the Commission in the last electric base rate case, Docket No. 09-414, this adjustment annualizes the effect of the reliability projects, discussed in the Direct Testimony of Company Witness

Gausman, that were placed into service during the test period and immediately after the test period that can be updated to actual information during the course of this proceeding. In addition to annualizing the depreciation expense and including the full year's effect in rate base of the projects placed in service, I also removed from cost of service the reliability projects that were included in construction work in progress as well as any associated AFUDC. In addition, I also removed from cost of service the full year's effect of any distribution retirements that occurred during the test period. As a result, for the rate-effective period, these adjustments would prevent double-recovery of these items and appropriately yield a matching of benefits that customers would receive to the cost associated with providing reliable service. The adjustments of a $607,847 decrease to test year operating income as well as a $397,219 increase in net rate base are summarized on Schedule WMV-14.

31. Q: <u>Please describe Adjustment No. 22 additional Reliability Plant Expenditures Forecasted to be Closed to Plant After the End of the Test Period.</u>

A: This adjustment recognizes the annualized effect of the additional reliability projects that are forecasted to be placed into plant in service after December 2011 based on the capital expenditures discussed in the Direct Testimony of Company Witness Gausman. I have annualized the depreciation expense and included in rate base the full year's effect of the referenced projects. I also have included the effect of the forecasted distribution retirements. The estimated expenditures included in the Company's initial filing will be updated for actual reliability plant closings placed into service during the course of the proceeding. As a result, in the rate-effective period, these adjustments would appropriately yield a matching of the benefits that customers would receive to the costs associated with reliable service. The adjustments of a $299,844 decrease to test year operating income as well as a $24,693,360 increase in net rate base are summarized on Schedule WMV-15.

32. Q: <u>Please describe the Interest Synchronization and Cash Working Capital Adjustments that you support in this proceeding, Adjustments No. 28 and 29.</u>

A: This adjustment, shown on Schedule WMV-16, synchronizes the interest expense utilized in the per books income tax calculation with the adjusted rate base and the tax deductible component included in the cost of capital. Schedule WMV-16 also displays the change in cash working capital associated with the proforma adjustments.

33. Q: <u>Do the Company's proposed rate base and earnings conform to the Commission's last detailed decision, Docket No. 09-414?</u>

A: Yes, although there are two items that differ from the Commission's decision in Docket No. 09-414. The Commission did not include CWIP in rate base but indicated that it was within its discretion in future cases to determine whether CWIP should be included in rate base. I have included CWIP in rate base with the corresponding accrued AFUDC in earnings and I provide details related to CWIP later in my testimony.

The Commission also denied the inclusion of non-executive incentive expense in Docket No. 09-414 on the basis that the amount had not been clearly defined during the proceeding.

CWIP and AFUDC

34. Q: <u>Why do you propose including CWIP and AFUDC in the Company's cost of service?</u>

A: Distribution projects are made up of thousands of work requests (WR) that, on an annual basis, account for the on-going additions to rate base in the form of new assets which comprise incremental capital units of property. The majority of these WR are characterized as having short construction durations and, on a per unit basis, a low cost when compared to major plant additions such as a new substation. The Company follows the appropriate procedure for accruing AFUDC at the WR level. Due to the fact that many WRs do not exceed the minimum threshold for accruing AFUDC, many of these distribution projects accrue no AFUDC and the majority of projects that do, accrue AFUDC for only a few months.

These new assets are placed into service throughout a given month but only close to plant in service on a monthly basis. The majority of this work is related to reliability, existing load and new customer service connections. A portion of these costs represent General plant, which include direct purchases and projects of short duration and lower value. It is appropriate to afford rate base treatment to these projects which are now either in service, serving customers with known and measurable costs or will very soon be in service, serving customers with known and measurable costs.

35. Q: **<u>What is the effect on the Company if the Commission does not allow the Company to recover the carrying cost of dollars in CWIP that are not accruing AFUDC?</u>**

A: The Company inappropriately bears the burden of those carrying costs. It is unfair that the Company would spend dollars on investment that will provide service to its customers but not be compensated for funding those investments. The Company should be compensated for the cost associated with that expenditure.

36. Q: **<u>Do you propose an alternative in this proceeding if CWIP and AFUDC are not included in cost of service?</u>**

A: Yes, I do. I understand that all of the parties are concerned with the relatively low effective AFUDC rate discussed by the Commission. If the Commission were to decide not to include CWIP and the associated accrued AFUDC in cost of service, there is a reasonable alternative. The Company could record a carrying cost on all CWIP. The difference between the actual accrued, recorded AFUDC and the full calculated carrying cost would be recorded as a regulatory asset. This regulatory asset would be treated in the Company's next case just as if it had been actually accrued AFUDC; that AFUDC would be amortized over an assigned life and included in rate base just as if had been capitalized.

37. Q: <u>When do you propose that the calculation of this "Full AFUDC" would begin?</u>

A: It would seem appropriate that it would begin when final rates in this proceeding become effective. In the Company's next proceeding, the balance of this regulatory asset would be determined from the point in time that rates were established in this proceeding through the end of the test period in the Company's next proceeding. That balance would be amortized using the average book life with the regulatory asset included in rate base. The next regulatory asset would then begin to accumulate at the end of the test period used in the Company's next proceeding.

<u>Non-Executive Incentive Compensation</u>

38. Q: <u>Please explain your proposed treatment of Non-Executive Incentive Compensation.</u>

A: I propose the inclusion of the test period level of non-executive incentive compensation in the Company's cost of service for this filing. In Docket No. 09-414, the Commission did not include the expense associated with non-executive incentives in cost of service because there was a concern whether the detail associated with the components related to safety, reliability and similar goals was entered into the record of the proceeding. The Commission, in its deliberation, discussed being consistent with its decision in the prior proceeding, Docket No. 05-304. In Docket No. 05-304, the Commission had included incentive costs associated with achieving safety, reliability and similar goals as part of its approved revenue requirements.

39. Q: <u>What has the Commission stated previously about incentive programs?</u>

A: While the Commission has previously excluded the inclusion of incentive compensation payments that are primarily triggered by the achievement of financial triggers, the Commission has allowed incentives that are triggered by the achievement of safety, reliability and similar goals. The Commission's Order in Docket No. 05-304 discussed that this was a difficult issue for the Commission and they recognized that they have allowed payments made under incentive plans to be included in rates in the past. The Commission has stated that such programs benefit ratepayers by extending the period between rate cases.

The non-executive incentives included in the test period are a part of the total compensation package paid to employees and such programs benefit customers by extending the period between rate cases. The Company's performance incentive plans are part of employees' total compensation package. While base salaries could be increased to reflect a higher level of compensation in lieu of incentives, having an at-risk portion of compensation available is widely used to motivate employees to be more efficient and productive. For Delmarva Power, this program helps to focus employees' attention and efforts on achieving the Company's goals. Many of these goals are explicitly related to safety and customers and to the extent that other goals are financial in nature, such goals help motivate employees to keep costs down and thus will benefit customers in the ratemaking process.

While the specifics of the annual incentive program differ from area to area, or among levels, they all have the same framework of drivers. In particular, all of the programs have an employee measure such, as safety. All of the programs also have a customer satisfaction component as well as a reliability measure. Finally, the programs all have financial components such as O&M expense control, managing capital expenditures and achieving our net income targets overall, which, if achieved, lower the revenue requirements to customers and will extend time between base rate filings.

All three of these areas work in concert – motivated employees looking out for the safety of themselves and the public, serving the needs and expectations of satisfied customers, and doing so in a financially responsible way. These incentives motivate employees to work safely, promote efficiency and focus on critical processes such as diversity, reliability and our customers' needs.

For these reasons I have not removed the non-executive incentive expense. I feel that all of the goals, including the financial triggered goals, should be included in rates.

40. Q: <u>Can you quantify the Non-Executive Incentive Expense that is included in the Company's filed test period?</u>

A: Yes, I can. For the test period used in this filing, the non-executive incentives total $619,421 for the Delaware jurisdiction and of this total, $371,652 is related to customer (customer satisfaction and reliability - $247,768), safety ($61,942), Affirmative Action ($30,971) and the Company's process improvement project – IDEA ($30,971) goals). I will provide an update to this partially forecasted amount when the Company provides its update for all actual information during the course of this proceeding.

41. Q: <u>What do is your proposed treatment of Non-Executive Incentive expense?</u>

A: I propose that all non-executive incentive expense be included in the final cost of service approved by the Commission in this proceeding. A key part of the total compensation paid to employees is these incentives, which aid in the motivation of employees to work safely, promote efficiency and focus on critical processes such as diversity, reliability and our customers' needs.

<u>REGULATORY LAG</u>

42. Q: <u>What is regulatory lag?</u>

A: Regulatory lag results when a utility's earned return on equity deviates from its regulated target. Regulatory lag produces chronic under-earning when revenue growth is less than cost growth over a prolonged period of time. Utilities can experience chronic under-earning due to events beyond their control.

43. Q: <u>Has the Company been earning less than its authorized return on equity?</u>

A: Yes. A review of the return on equity for the last five calendar years on an unadjusted basis paints a picture of the Company not earning its authorized return over the recent past. The unadjusted return on equity as presented from the Company's annual rate of return reports for the past five years is as follows:

Table 1

Year	Earned ROE	Authorized ROE	Rev Deficiency (Excess) Millions
2006	12.48%	10.00 %	($8.3)
2007	11.43%	10.00%	($4.9)
2008	9.26%	10.00%	$2.6
2009	5.11%	10.00%	$17.0
2010	8.23%	10.00%	$7.2

44. Q: <u>What were the major contributors to the revenue deficiency?</u>

A: There were two major drivers for the Company's under-earning position during the rate effective period. The first is that rate base was $34.936 million higher than the fully adjusted results from the Commission's decision in Docket No. 09-414. The biggest driver was an increase in plant in service of $67.008 million compared to the approved amount.

The second major driver was an increase in operating expense. While revenues did increase, operating expenses (O&M, depreciation and amortization and other than income taxes) exceeded the revenue increase by $3.259 million.

45. Q: <u>Do you have evidence that this has occurred?</u>

A: I have compared the Commission's decision from the Company's last case, Docket No. 09-414, to the actual results for the period it was setting rates for. The rate effective period in Docket No. 09-414 was the period from April 19, 2010 through April 18, 2011. Page 1 of Schedule WMV-17 displays the fully adjusted results from Docket No. 09-414. The resulting return on equity was the ordered 10.00% from that proceeding.

I then reviewed the March 2011 rate of return report that had been submitted to the Commission Staff. This period is very close to that period to the rate effective period that the decision in Docket No. 09-414 was based on. I applied a limited number of adjustments to display an "earned return" view, which is displayed as Page 2 of Schedule WMV-17.

46. Q: <u>What did the comparison show?</u>

A: The March 2011 "earned return" shows that the Company is only earning an 8.05% return on equity. This translates to a revenue deficiency during the rate effective period of $7,873,000.

47. Q: <u>How do you interpret the results?</u>

A: It seems evident that the ratemaking approved by the Commission in Docket No. 09-414 did not allow the Company to earn its authorized return on equity. With the Company's increasing investment in its distribution system, the current policy of only recognizing investment that has actually been placed into service on the Company's books prior to the beginning of the rate effective period is a major contributor to the under-earning situation. In addition, the increase in operating expenses seen by the Company has not been recognized in the traditional ratemaking paradigm.

48. Q: <u>Are you providing an example of the gap between the Company's cost of service presentation and the cost of service using a forecast for first year that rates will go into effect?</u>

A: Yes, I am. Company Witness McGowan's Direct Testimony describes the inputs supporting the cost of service for the Company during the rate effective period. Schedule WMV-18 provides a comparison of the cost of service for the fully forecasted rate-effective period to the fully adjusted test period employing ratemaking as approved in prior proceedings.

49. Q: <u>Are you proposing that the Commission approve as a ratemaking adjustment the difference that Schedule WMV-18 displays to compensate for the forecasted earnings and rate base during the rate effective period?</u>

A: No, I am not. While I do believe that a fully forecasted test period synchronized to the rate effective period is the best method to allow the Company the opportunity to earn its authorized return on equity during the first year that rates are in effect, Schedule WMV-18 instead provides a quantitative example of the issue associated with the current ratemaking practices. Schedule WMV-18 does support the need for the regulatory mechanisms proposed by the Company.

<u>REVENUE REQUIREMENT</u>

50. Q: <u>Can you summarize the adjustments that are included in this filing?</u>

A: Yes, I can. Schedule WMV-1 displays all of the proforma adjustments included in this filing and the earnings and rate base impact.

51. Q: <u>Please summarize the Company's overall revenue deficiency.</u>

A: Schedule WMV-2 displays the calculation of the Company's revenue deficiency of $31,760,741. This calculation includes the effect of all of the proforma adjustments to the test period level of earnings and rate base and uses the Direct Testimony of Company Witness McGowan's supplied rate of return of 7.87%.

52. Q: <u>Does this conclude your testimony?</u>

A: Yes, it does.

Delmarva Power & Light Company
Delaware Distribution Rate of Return
6+6 Months Ending December 2011

(1) Line No.	(2) Item		(3) System Electric		(4) Total Distribution		(5) Delaware Distribution
1	**Rate Base**						
2	Electric Plant in Service	$	2,531,773,302	$	1,750,274,619	$	1,031,587,403
3	Less: Depreciation Reserve	$	985,831,918	$	684,728,549	$	398,461,506
4	Net Plant in Service	$	1,545,941,384	$	1,065,546,069	$	633,125,897
5							
6	CWIP	$	128,323,254	$	68,927,930	$	42,446,205
7	Working Capital	$	19,666,611	$	19,666,611	$	10,694,758
8	Plant Materials & Supplies	$	25,621,566	$	20,633,357	$	12,161,012
9	Plant Held For Future Use	$	10,288,155	$	2,553,004	$	-
10	Prepaid Balances	$	73,001,605	$	65,733,738	$	40,678,780
11	Deferred Federal and State Tax Balance	$	(500,831,193)	$	(261,680,228)	$	(153,208,202)
12	Deferred Investment Tax Credit	$	(5,757,176)	$	(3,409,557)	$	(2,198,205)
13	Customer Deposits	$	(20,728,659)	$	(20,728,659)	$	(12,700,490)
14	Customer Advances	$	(3,498,207)	$	(3,498,207)	$	(1,535,856)
15							
16	Total Rate Base	$	1,272,027,342	$	953,744,059	$	569,463,900
17							
18	**Earnings**						
19	Operating Revenues	$	1,087,801,721	$	296,949,540	$	171,224,960
20							
21	O & M Expense	$	870,404,213	$	172,806,058	$	98,759,794
22	Depreciation and Amortization Expense	$	63,232,284	$	51,050,644	$	27,066,451
23	Taxes Other than Income Taxes	$	31,851,553	$	19,469,844	$	7,841,811
24	Deferred FIT Expense	$	69,359,040	$	15,595,805	$	9,160,966
25	Deferred SIT Expense	$	9,271,399	$	4,081,568	$	2,494,145
26	Net ITC Adjustment	$	(677,190)	$	(483,578)	$	(292,617)
27	State Income Tax	$	717,295	$	(1,630,913)	$	(490,807)
28	Federal Income Tax	$	(42,014,030)	$	(6,231,770)	$	(1,974,512)
29	Total Operating Expenses	$	1,002,144,565	$	254,657,658	$	142,565,231
30							
31	Operating Income	$	85,657,156	$	42,291,882	$	28,659,729
32							
33	AFUDC	$	4,167,758	$	2,251,652	$	1,556,503
34	Misc Earnings Items	$	(52,498)	$	(52,498)	$	(31,801)
35	Earnings	$	89,772,417	$	44,491,036	$	30,184,431

Delmarva Power & Light Company
Delaware Electric Distribution Adjustments
6+6 Months Ending December 2011

(1) Line No.		(2) Item	(3) Witness	(4) Earnings	(5) Rate Base	(6) ROR	(7) ROE
1	**Per Books Unadjusted**		VonSteuben	$30,184,431	$569,463,900		
2							
3	**Adjustments:**						
4	1	Weather Normalization	VonSteuben	($514,774)	$0		
5	2	Revenue Normalization	Santacecilia	($649,996)	$0		
6	3	Regulatory Commission Exp Normalization	VonSteuben	($63,766)	$0		
7	4	Injuries and Damages Exp Normalization	Ziminsky	($370,616)	$0		
8	5	Uncollectible Expense Normalization	VonSteuben	($73,511)	$0		
9	6	Wage and Fica Expense	VonSteuben	($958,517)	$0		
10	7	Remove Employee Association Expense	VonSteuben	$57,289	$0		
11	8	Proform Benefits Expense	Ziminsky	($286,417)	$0		
12	9	Proform OPEB Expense	Ziminsky	$19,523	$0		
13	10	Proform Pension Expense	Ziminsky	$58,777	$0		
14	11	Removal of Executive Incentive Compensation	VonSteuben	$612,978	$0		
15	12	Removal of Certain Officer Compensation	VonSteuben	$38,092	$0		
16	13	Storm Restoration Expense Normalization	VonSteuben	$1,883,778	$0		
17	14	Amortize Hurricane Irene Costs	VonSteuben	$1,402,598	$1,753,248		
18	15	Reflect IRP Recurring Expense	Ziminsky	($720,903)	$0		
19	16	Reflect Increased Customer Care Expense	Dickerson	($438,520)	$0		
20	17	Amortize IRP Deferred Costs	Ziminsky	($6,050)	$57,474		
21	18	Amortize RFP Deferred Costs	Ziminsky	($2,818)	$26,771		
22	19	Increased O&M Associated with New Customer Information System	Ziminsky	($381,942)	$0		
23	20	Postage Increase	Ziminsky	($45,624)	$0		
24	21	Reliability Plant Closing Adjustment Jan 11 - Dec 11	VonSteuben	($607,847)	$397,219		
25	22	Proform Forecasted Reliability Closings Jan 12 - Sep 12	VonSteuben	($299,844)	$24,693,360		
26	23	Amortization of Actual Refinancing Costs	Ziminsky	($388,924)	$3,568,332		
27	24	Amortize Qualified Fuel Cell Provider Project Costs	Ziminsky	$105,203	$131,504		
28	25	Amortize Medicare Subsidy Deferred Costs	Ziminsky	($21,865)	$54,664		
29	26	Remove Post-80 ITC Amortization	Ziminsky	($255,737)	$0		
30	27	Recover Credit Facilities Expense	Ziminsky	($142,345)	$186,271		
31	28	Interest Synchronization	VonSteuben	$311,050	$0		
32	29	Cash Working Capital	VonSteuben	$0	($383,020)		
33							
34							
35		**Adjusted Total**		$28,443,699	$599,949,723	4.74%	4.43%

Delmarva Power & Light Company
Delaware Distribution
6+6 Months Ending December 2011 Test Period
Determination of Revenue Requirements

(1) Line No.	(2) Item	(3) Detail
1	Adjusted Net Rate Base	$599,949,723
2	Required Rate of Return	7.87%
3	Required Operating Income	$47,216,043
4	Pro Forma Operating Income	$28,443,699
5	Operating Income Deficiency	$18,772,344
6	Revenue Conversion Factor	1.69189
7	Revenue Requirement	$31,760,741

Delmarva Power & Light Company
Distribution Cash Working Capital
6+6 Months Ending December 2011

Schedule WMV-3

(1) Line No.	(2) ITEM	(3) Distribution Amount	(4) Revenue Lag	(5) (Lead)/Lag Days	(6) Net Lag Days	(7) % 365 DAYS	(8) Distribution CWC	(9) DE Distribution %	(10) DE Distribution CWC
1	**O&M**								
2	O & M	$172,806,058	52.48	17.33	35.15	9.63%	$16,641,460	57.83%	$9,622,973
3	**Total O & M**	**$172,806,058**					**$16,641,460**		**$9,622,973**
4									
5	**Other Taxes**								
6	Taxes Other Than Income Taxes								
7	Delaware Public Utility Tax	$6,717,454	52.48	35.88	16.60	4.55%	$305,506	100.00%	$305,506
8	DE Franchise Tax	$42,976	52.48	137.78	(85.30)	-23.37%	($10,043)	100.00%	($10,043)
9	MD Franchise Tax	$5,751,872	52.48	38.51	13.97	3.83%	$220,147	0.00%	$0
10	Delaware Local Tax	$176,419	52.48	(40.56)	93.04	25.49%	$44,970	100.00%	$44,970
11	Maryland Local Tax	$565,768	52.48	35.26	17.22	4.72%	$26,692	0.00%	$0
12	Total - Revenue Taxes	**$13,254,488**					**$587,271**		**$340,433**
13									
14	Property Tax								
15	Property Tax	$9,794,577	52.48	(91.12)	143.60	39.34%	$3,853,428	58.94%	$2,271,157
16	Total Property Taxes	**$9,794,577**					**$3,853,428**		**$2,271,157**
17									
18	Payroll Tax								
19	FICA	$2,983,840	52.48	12.03	40.45	11.08%	$330,675	58.94%	$194,895
20	FUTA	$154,392	52.48	76.38	(23.90)	-6.55%	($10,110)	58.94%	($5,958)
21	Total Payroll	**$3,138,232**					**$320,565**		**$188,937**
22									
23	**Total Other Taxes**	**$26,187,297**				18.18%	**$4,761,265**		**$2,800,526**
24									
25	**Income Taxes**								
26	State	($490,807)	52.48	(17.30)	69.78	19.12%	($93,832)	100.00%	($93,832)
27	Federal	($1,802,729)	52.48	37.00	15.48	4.24%	($76,455)	100.00%	($76,455)
28	Total Taxes	**($2,293,536)**					**($170,287)**		**($170,287)**
29									
30	**Interest Expense**	$14,565,412	52.48	91.25	(38.77)	-10.62%	($1,547,126)	100.00%	($1,547,126)
31	**Interest on Customer Deposits**	$52,498	52.48	182.50	(130.02)	-35.62%	($18,701)	60.58%	($11,328)
32	Total Other Items	$14,617,910					($1,565,827)		($1,558,454)
33									
34									
35	**TOTAL CWC**	**$211,317,729**					**$19,666,611**		**$10,694,758**

Schedule WMV-4
Adjustment 1

Delmarva Power & Light Company
Delaware Distribution
Weather Normalization
6 Months Ending June 2011

(1) Line No.	(2) Item	(3) Generation	(4) Transmission	(5) Distribution	(6) Total
1	Total Revenue Adjustment	($3,516,949)	($208,603)	($870,943)	($4,596,495)
2					
3	Expense				
4	O&M Expense	($3,516,949)	$0	$0	($3,516,949)
5	Other Taxes	$0	($842)	($3,517)	($4,359)
6	State Income Tax	$0	($18,075)	($75,466)	($93,541)
7	Federal Income Tax	$0	($66,390)	($277,186)	($343,576)
8	Total Expense	($3,516,949)	($85,307)	($356,169)	($3,958,425)
9					
10	Earnings	$0	($123,296)	($514,774)	($638,070)

Schedule WMV-5
Adjustment 3

Delmarva Power & Light Company
Delaware Distribution
Regulatory Commission Expense
6+6 Months Ending December 2011

(1) Line No.	(2) Item		(3) Delaware Distribution	
1	Non - Rate Case Regulatory Commission Expense			
2	(3 Year Average)		$68,366	(1)
3				
4	Non - Rate Case Regulatory Commission Expense			
5	Included in Test Period:		$91,449	
6				
7	Adjustment to Per Books to normalize non-base case			
8	Regulatory Commission Expense		($23,083)	
9				
10	Cost of Current Case (2)	$675,000		
11	Amount included in Adjustment		$225,000	
12				
13	Total Normalized Expense Adjustment		$201,917	
14				
15	Remove Rate Case Expense from Per Books		($94,467)	
16				
17	Total Regulatory Commission Expense Adjustment		$107,450	
18				
19	SIT		($9,348)	
20	FIT		($34,336)	
21	Net Expense		$63,766	
22				
23	Earnings		($63,766)	

(1) Basis for Normalized Expense

12 m/e 12/31/09	$70,639	
12 m/e 12/31/10	$43,010	
6+6 m/e 12/31/11	$91,449	excludes $265,910 associated with Bloom
Average	$68,366	

(2) Cost of Current Case

External Legal	$250,000
Cost of Capital Witness	$135,000
Investor Perspective Witness	$65,000
Court reporter/notice/etc	$25,000
DPSC	$200,000
Total	$675,000

Delmarva Power & Light Company
Delaware Distribution
Normalization of Uncollectible Expense
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) Delaware Electric	
1	Delaware Electric Uncollectible Expense		
2	(3 Year Average):	$1,732,502	(1)
3			
4	Delaware Electric Uncollectible Expense		
5	Included in Test Period (non-SOS):	$1,608,631	(1)
6			
7	Adjustment to Per Books Uncollectible Expense	$123,871	
8			
9	SIT	($10,777)	
10	FIT	($39,583)	
11			
12	Net Expense	$73,511	
13			
14	Earnings	($73,511)	

(1) Delaware Electric - non-SOS

12 m/e 12/31/09	$2,102,515
12 m/e 12/31/10	$1,486,359
6+6 m/e 12/31/11	$1,608,631
3 Year Average	$1,732,502

Schedule WMV-7
Adjustment 6

Delmarva Power & Light Company
Delaware Distribution
Wage, Salary and FICA Expense Adjustment
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) Delmarva Total	(4) Delaware Distribution
1	**Salary and Wage Adjustment**		
2	DPL Electric Expense	$2,791,419	
3			
4	Distribution Expense		89.36%
5	Delaware Distribution		58.94%
6			
7	Expense		$1,470,117
8			
9	State Income Tax @ 8.7 %		($127,900)
10	Federal Income Tax		($469,776)
11	Total Expense		$872,441
12			
13	Earnings		($872,441)
14			
15	**FICA Adjustment**		
16	DPL Electric Expense	$152,198	
17			
18	Distribution Expense		89.36%
19	Delaware Distribution		58.94%
20			
21	Expense		$80,156
22			
23	State Income Tax @ 8.7 %		($6,974)
24	Federal Income Tax		($25,614)
25	Total Expense		$47,569
26			
27	Earnings		($47,569)
28			
29	**Signing Bonus**		
30	Union Signing Bonus - Electric	$649,013	
31	Amortization - 3 Years	$216,338	
32			
33	Total Expense Adjustment of Signing Bonus		$216,338
34			
35	Electric Expense/Capital Ratio		56.95%
36	Distribution Expense		89.36%
37	Delaware Distribution		58.94%
38			
39	Expense		$64,888
40			
41	State Income Tax @ 8.7 %		($5,645)
42	Federal Income Tax		($20,735)
43	Total Expense		$38,508
44			
45	Earnings		($38,508)
46			
47	**Total Earnings Adjustment**		**($958,517)**

Schedule WMV-8
Adjustment 7

Delmarva Power & Light
Delaware Distribution
Employee Association Expenses
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) $
1	Employee Association expenses - total DPL	$202,209
2		
3	Delmarva Power & Light Electric allocation	81.00%
4		
5	Employee Association expenses - total DPL Electric	$163,789
6		
7	Delaware Distribution Allocation	58.94%
8		
9	Impact to Operating Expense	$96,535
10		
11	Impact to SIT @ 8.7%	$8,399
12		
13	Impact to FIT @ 35%	$30,848
14		
15	Impact to Operating Income	$57,289

Schedule WMV-9
Adjustment 11

Delmarva Power & Light Company
Delaware Distribution
Remove Executive Incentive Compensation
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) Distribution
1	Remove Executive Incentive Compensation	
2	Delaware Distribution	($1,032,906)
3		
4	Income Taxes	
5	State Income Tax	$89,863
6	Federal Income Tax	$330,065
7	Total Income Taxes	$419,928
8		
9	Earnings	$612,978

Schedule WMV-10
Adjustment 12

Delmarva Power & Light Company
Delaware Distribution
Remove Certain Officer Compensation
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) Distribution
1	Remove Certain Officer Compensation	
2	Delaware Distribution	($64,187)
3		
4	Income Taxes	
5	State Income Tax	$5,584
6	Federal Income Tax	$20,511
7	Total Income Taxes	$26,095
8		
9	Earnings	$38,092

Schedule WMV-11
Adjustment 13

Delmarva Power & Light Company
Delaware Distribution
Normalization of Storm Restoration Expense
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) Detail	
1	System Electric Storm Restoration Expense		
2	(3 Year Average)	$15,926,073	(1)
3			
4	System Electric Storm Restoration Expense		
5	Included in Test Period:	$21,311,818	
6			
7	Adjustment to Per Books		
8	Storm Restoration Expense	($5,385,745)	
9			
10	Delaware Distribution Allocation	58.94%	
11			
12	Delaware Distribution O&M Expense	($3,174,282)	
13			
14	SIT	$276,163	
15	FIT	$1,014,342	
16			
17	Net Expense	($1,883,778)	
18			
19	Earnings	$1,883,778	

(1)	System Electric	Distribution	
	12 m/e 12/31/09	$11,167,103	
	12 m/e 12/31/10	$15,299,298	
	6+6 m/e 12/31/11	$21,311,818	excludes $3,545,197 of Hurricane Irene incremental expense
	Average	$15,926,073	

Schedule WMV-12
Adjustment 14

Delmarva Power & Light Company
Delaware Distribution
Amortize Hurricane Irene Costs
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) System Electric	(4) DE D Alloc Factor	(5) DE Distribution	
1	**Earnings**				
2	Amortization	$1,181,732	100%	$1,181,732	(1)
3	Remove Expense in Test Period			($3,545,197)	
4	Adjustment			($2,363,465)	
5					
6	State Income Tax			$205,621	
7	Federal Income Tax			$755,245	
8	Total Expenses			($1,402,598)	
9					
10	Earnings			$1,402,598	
11					
12	**Rate Base**				
13	Average Amortizable Balance	$2,954,331	100%	$2,954,331	(2)
14					
15	Deferred State Income Tax			($257,027)	
16	Deferred Federal Income Tax			($944,056)	
17	Net Rate Base			$1,753,248	

(1)	DP&L Delaware	$ 3,545,197
	Amortization period - years	3
	Annual amortization amount	$ 1,181,732
(2)	DP&L Delaware - beg balance	$ 3,545,197
	DP&L Delaware - end balance	$ 2,363,465
	DP&L Delaware - avg balance	$ 2,954,331

Schedule WMV-13
Adjustment 16

Delmarva Power & Light Company
Delaware Distribution
Reflect Increases Customer Care Expense
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) Total Additional Expenditures	(4) Reflected in Actual Months of Test Year	(5) Adjustment
1	Incremental customer care expense:			
2	Personnel	$2,860,141	$194,275	$2,665,866
3	Infrastructure (hardware and software)	$116,184	$0	$116,184
4	Crisis Call Center	$165,333	$0	$165,333
5	Customer education and research	$100,000	$0	$100,000
6				
7	Total annual recurring incremental expense	$3,241,658	$194,275	$3,047,384
8				
9	Allocation to DPL Electric			41.93%
10				
11	DPL Electric			$1,277,768
12				
13	Delaware Electric Distribution Allocator			57.83%
14				
15	Delaware Distribution			$738,933
16				
17	SIT			($64,287)
18	FIT			($236,126)
19	Total Expense			$438,520
20				
21	Earnings			($438,520)

Schedule WMV-14
Adjustment 21

Delmarva Power & Light Company
Delaware Distribution
January 2011 to December 2011 Test Period Reliability Closings
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) $
1	Rate Base	
2	Plant in Service	
3	Reliability closings January 2011 - December 2011	$16,667,930
4	Retirements January 2011 - December 2011	($6,371,250)
5	Adjustment to Plant in Service	$10,296,680
6		
7	Depreciation reserve	
8	Retirements January 2011 - December 2011	($6,371,250)
9	Depreciation Expense	$134,887
10	Adjustment to Depreciation Reserve	($6,236,363)
11		
12	Net Plant	$16,533,044
13		
14	CWIP	($12,802,489)
15		
16	Deferred Taxes	($3,333,335)
17		
18	Total Rate Base	$397,219
19		
20	Earnings	
21	Depreciation Expense	
22	Reliability closings January 2011 - December 2011	$436,700
23	Retirements January 2011 - December 2011	($166,927)
24	Adjustment to Depreciation Expense	$269,773
25		
26	Deferred Taxes	
27	State Income Tax	($1,450,110)
28	Federal Income Tax	($5,326,237)
29	Deferred State Income Tax	$1,426,640
30	Deferred Federal Income Tax	$5,240,031
31		
32	Operating Expense	$160,097
33		
34	Operating Income	($160,097)
35		
36	AFUDC	($447,750)
37		
38	Total Earnings	($607,847)

Schedule WMV-15
Adjustment 22

Delmarva Power
Delaware Distribution
January 2012 to September 2012 Forecasted Reliability Closings

(1) Line No.	(2) Item	(3) $
1	**Rate Base**	
2	Plant in Service	
3	Reliability closings January 2012 - September 2012	$27,653,962
4	Retirements January 2012 - September 2012	($8,369,394)
5	Adjustment to Plant in Service	$19,284,568
6		
7	Depreciation reserve	
8	Retirements January 2012 - September 2012	($8,369,394)
9	Depreciation expense	$252,628
10	Adjustment to Depreciation Reserve	($8,116,766)
11		
12	Net Plant	$27,401,334
13		
14	Deferred Taxes	($2,707,974)
15		
16	Total Rate Base	$24,693,360
17		
18	**Earnings**	
19	Depreciation Expense	
20	Reliability closings January 2012 - September 2012	$724,534
21	Retirements January 2012 - September 2012	($219,278)
22	Adjustment to Depreciation Expense	$505,256
23		
24	State Income Tax	($1,202,947)
25	Federal Income Tax	($4,418,412)
26	Deferred State Income Tax	$1,158,990
27	Deferred Federal Income Tax	$4,256,957
28		
29	Operating Expense	$299,844
30		
31	Operating Income	($299,844)
32		
33	Total Earnings	($299,844)

Delmarva Power & Light Company
Delaware Distribution
Cash Working Capital - Interest Synchronization
6+6 Months Ending December 2011

(1) Line No.	(2) Item	(3) Revenue	(4) O&M	(5) Deprec/Amort	(6) Other Taxes	(7) SIT	(8) FIT	(9) Def Tax/ITC	(10) Total Expense	(11) Interest	(12) Earnings
1	Weather Normalization	($870,943)			($3,517)	($75,466)	($277,186)		($356,169)		($514,774)
2	Revenue Normalization	($1,099,725)			($4,441)	($95,290)	($349,998)		($449,729)		($649,996)
3	Regulatory Commission Exp Normalization		$107,450			($9,348)	($34,336)		$63,766		($63,766)
4	Injuries and Damages Exp Normalization		$624,510			($54,332)	($199,562)		$370,616		($370,616)
5	Uncollectible Expense Normalization		$123,871			($10,777)	($39,583)		$73,511		($73,511)
6	Wage and Fica Expense Adjustment		$1,535,005		$80,156	($140,519)	($516,125)		$958,517		($958,517)
7	Remove Employee Association Expense		($96,535)			$8,399	$30,848		($57,289)		$57,289
8	Proform Benefits Expense		$482,631			($41,989)	($154,225)		$286,417		($286,417)
9	Proform OPEB Expense Adjustment		($32,897)			$2,862	$10,512		($19,523)		$19,523
10	Proform Pension Expense		($99,042)			$8,617	$31,649		($58,777)		$58,777
11	Removal of Executive Incentive Compensation		($1,032,906)			$89,863	$330,065		($612,978)		$612,978
12	Removal of Certain Officer Compensation		($64,187)			$5,584	$20,511		($38,092)		$38,092
13	Storm Restoration Exp Normalization		($3,174,282)			$276,163	$1,014,342		($1,883,778)		$1,883,778
14	Amortize Hurricane Irene Costs		($3,545,197)	$1,181,732		$205,621	$755,245		($1,402,598)		$1,402,598
15	Reflect IRP Recurring costs		$1,214,767			($105,685)	($388,179)		$720,903		($720,903)
16	Reflect Increased Customer Care Expense		$738,933			($64,287)	($236,126)		$438,520		($438,520)
17	Amortize IRP Deferred Costs			$10,194		($887)	($3,258)		$6,050		($6,050)
18	Amortize RFP Deferred Costs			$4,749		($413)	($1,517)		$2,818		($2,818)
19	Increased O&M Associated with New Customer Information System		$643,596			($55,993)	($205,661)		$381,942	$0	($381,942)
20	Postage Increase		$76,880			($6,689)	($24,567)		$45,624		($45,624)
21	Reliability Plant Closing Adjustment Jan 11 - Dec 11			$269,773		($23,470)	($86,206)		$160,097	($447,750)	($607,847)
22	Proform Forecasted Reliability Closings Jan 12 - Sep 12			$505,256		($43,957)	($161,454)		$299,844		($299,844)
23	Amortization of Actual Refinancing Costs			$655,361		$0	$0	($266,437)	$388,924		($388,924)
24	Amortize Qualified Fuel Cell Provider Project Costs		($265,910)	$88,637		$15,423	$56,648		($105,203)		$105,203
25	Amortize Medicare Subsidy Deferred Costs			$36,845		($3,205)	($11,774)		$21,865		($21,865)
26	Remove Post-80 ITC Amortization					$0	$0	$255,737	$255,737		($255,737)
27	Recover Credit Facilites Expense		$239,860			($20,868)	($76,647)		$142,345		($142,345)
28	Total	($1,970,668)	($2,523,454)	$2,752,546	$72,198	($140,644)	($516,584)	($10,700)	($366,637)	($447,750)	($2,051,782)
29	Cash Working Capital		0.0963	0.0000	0.1818	0.1912	0.0424			(0.1062)	
30	Working Capital		($243,009)	$0	$13,126	($26,891)	($21,903)				($278,677)
31											
32	Interest synchronization 1					($208,058)	($764,195)			$774,874	
33	Working capital		($243,009)	$0	$13,126	($39,781)	($32,402)			($82,292)	($384,357)
34											
35	Interest synchronization 2					($207,440)	($761,924)			$767,767	
36	Working capital		($243,009)	$0	$13,126	($39,662)	($32,306)			($81,537)	($383,388)
37											
38	Interest synchronization 3					($207,205)	($761,063)			$765,072	
39	Working capital		($243,009)	$0	$13,126	($39,618)	($32,269)			($81,251)	($383,020)
40											
41											

Line No.	Item	Interest Synchronization			
42					
43	Per Books Interest Exp (COS)	$14,565,412	$14,565,412	$14,565,412	$14,565,412
44	Adjusted Delaware Rate Base	$600,332,743 (1)	$600,054,066	$599,948,386	$599,949,355
45	Weighted COD	0.0255	0.0255	0.0255	0.0255
46	Proforma Interest	$15,308,485	$15,301,379	$15,298,684	$15,298,709
47	Delaware IOCD	31,801	$31,801	$31,801	$31,801
48	Total Proforma Interest	$15,340,286	$15,333,180	$15,330,485	$15,330,510
49	Difference	$774,874	$767,767	$765,072	$765,097
50					
51	SIT @ 8.7 %	($67,414)	($66,796)	($66,561)	($66,563)
52	FIT @ 35 %	($247,611)	($245,340)	($244,479)	($244,487)
53					
54	Earnings	$315,025	$312,136	$311,040	$311,050

(1) Without Cash Working Capital Adjustment	
Per Books Rate Base	$569,463,900
Amortize Hurricane Irene Costs	$1,753,248
Amortize IRP Deferred Costs	$57,474
Amortize RFP Deferred Costs	$26,771
Actual Reliability Closings - Jan 11 - Dec 11	$397,219
Forecast Reliability Closing Jan 12 - Sep 12	$24,693,360
Actual Refinancings	$3,568,332
Amortize Qualified Fuel Cell Provider Project Co	$131,504
Amortize Medicare Subsidy Deferred Costs	$54,664
Recover Credit Facilites Expense	$186,271
Total Rate Base-w/o CWC	$600,332,743
CWC Adjustment	($383,020)
Total Rate Base	$599,949,723

Earnings Adj w/o Interest synch	($2,051,782)
Earnings - per books	$30,184,431
Sub-total Earnings	$28,132,649
Interest synchronization	$311,050
Total Earnings	$28,443,699

Delmarva Power & Light Company
Analysis of Regulatory Lag from DPSC Dkt No. 09-414 Decision

(1) Line No.	(2) Item	(3) Dkt No. 09-414 Decision Fully Adjusted	(4) March 2011 Avg Adjusted	(5) Difference
1	**Rate Base**			
2	Electric Plant in Service	916,255,120	983,262,661	67,007,540
3	Less: Depreciation Reserve	356,902,660	388,241,268	31,338,608
4	Net Plant in Service	559,352,460	595,021,392	35,668,933
5				
6	CWIP	0	0	0
7	Working Capital	5,143,268	4,174,227	(969,041)
8	Plant Materials & Supplies	9,943,265	11,449,176	1,505,911
9	Amortizable Balances	16,124,491	15,069,130	(1,055,361)
10	Prepaid Balances	11,882,538	30,853,574	18,971,037
11	Deferred Federal and State Tax Balance	(144,896,763)	(162,406,869)	(17,510,106)
12	Deferred Investment Tax Credit	(3,058,358)	(2,423,740)	634,619
13	Customer Deposits	(10,227,834)	(12,063,174)	(1,835,340)
14	Customer Advances	(999,423)	(1,473,607)	(474,183)
15				
16	Total Rate Base	443,263,643	478,200,112	34,936,468
17				
18	**Earnings**			
19	Operating Revenues	164,295,190	172,059,470	7,764,280
20				
21	O & M Expense	83,935,301	92,537,819	8,602,518
22	Depreciation and Amortization Expense	25,373,148	26,985,291	1,612,143
23	Taxes Other than Income Taxes	7,014,973	7,823,790	808,817
24	Income Taxes	14,164,492	13,114,215	(1,050,277)
25	Net ITC Adjustment	(82,429)	(28,958)	53,471
26	Total Operating Expenses	130,405,485	140,432,157	10,026,672
27				
28	Operating Income	33,889,705	31,627,313	(2,262,392)
29				
30	AFUDC	-	-	-
31	Misc Earnings Items	(157,310)	(31,611)	125,700
32	Earnings	33,732,394	31,595,702	(2,136,692)
33				
34	**Rate of Return**	**7.61%**	**6.61%**	
35	**Return on Equity**	**10.00%**	**8.05%**	
36	**Revenue Deficiency @ authorized 10.00% ROE**		7,873,098	

Delmarva Power
Delaware Electric Distribution Rate of Return
12 Months Ending March 2011
Earned Return

(1) Line No.	(2) Item	(3) Test Period COS	(4) Adjustments	(5) Earned Return Adjusted
1	**Rate Base - Average**			
2	Electric Plant in Service	983,262,661	-	983,262,661
3	Less: Depreciation Reserve	388,241,268	-	388,241,268
4	Net Plant in Service	595,021,392	-	595,021,392
5				
6	CWIP	52,190,361	(52,190,361)	0
7	Working Capital	4,330,452	(156,225)	4,174,227
8	Plant Materials & Supplies	11,449,176	-	11,449,176
9	Plant Held For Future Use	-	15,069,130	15,069,130
10	Prepaid Balances	30,853,574	-	30,853,574
11	Deferred Federal and State Tax Balance	(156,356,369)	(6,050,500)	(162,406,869)
12	Deferred Investment Tax Credit	(2,423,740)	-	(2,423,740)
13	Customer Deposits	(12,063,174)	-	(12,063,174)
14	Customer Advances	(1,473,607)	-	(1,473,607)
15				
16	Total Rate Base	521,528,068	(43,327,956)	478,200,112
17				
18	**Earnings**			
19	Operating Revenues	175,261,226	(3,201,756)	172,059,470
20				
21	O & M Expense	99,113,374	(6,575,555)	92,537,819
22	Depreciation and Amortization Expense	26,248,184	737,107	26,985,291
23	Taxes Other than Income Taxes	7,746,109	77,682	7,823,790
24	Deferred FIT Expense	22,052,625	(263,747)	21,788,878
25	Deferred SIT Expense	6,004,001		6,004,001
26	Net ITC Adjustment	(284,550)	255,592	(28,958)
27	State Income Tax	(3,520,632)	379,458	(3,141,174)
28	Federal Income Tax	(12,931,242)	1,393,753	(11,537,489)
29	Total Operating Expenses	144,427,869	(3,995,711)	140,432,157
30				
31	Operating Income	30,833,357	793,955	31,627,313
32				
33	AFUDC	2,219,356	(2,219,356)	-
34	Misc Earnings Items	(40,042)	8,431	(31,611)
35	Earnings	33,012,672	(1,416,970)	31,595,702
	Rate of Return	6.33%		6.61%
	Return on Equity	7.50%		8.05%
	Revenue Deficiency @ authorized 10.00% ROE	11,033,411		7,873,098

Delmarva Power & Light Company
Delaware Distribution
Twelve Months Ending Jun 30, 2013
(Fully Projected)
$000's

(1) Line No.	(2) Item	(3) 12 Mos. Ending 6/30/2013	(4) Adjustments for DE Cost of Service	(5) Adjusted Col (1) + Col (2)	(6) Initial Revenue Increase Requested	(7) DE Adjusted Col (3) + Col (4)	(8) Revenue to Achieve 10.75% Return on Equity	(9) Adjusted to Reflect 10.75% Return on Equity Col (5) + Col (6)
1	**Rate Base**							
2	Electric Plant in Service	1,167,050		$ 1,167,050		$ 1,167,050		$ 1,167,050
3	Accumulated Depreciation/Amortization	(428,597)		(428,597)		(428,597)		(428,597)
4	CWIP	20,041		20,041		20,041		20,041
5	Materials and Supplies	11,838		11,838		11,838		11,838
6	Cash Working Capital	10,019		10,019		10,019		10,019
7	Accumulated Deferred Income Taxes	(173,208)		(173,208)		(173,208)		(173,208)
8	Prepaid Balances. (net of tax)	35,090		35,090		35,090		35,090
9	Customer Deposits	(14,306)		(14,306)		(14,306)		(14,306)
10	Customer Advances	(1,702)		(1,702)		(1,702)		(1,702)
11	DPL DE Portion of Servco Assets	5,637		5,637		5,637		5,637
12	Regulatory assets	-	9,466	9,466		9,466		9,466
13								
14	Total Rate Base	$ 631,860	$ 9,466	$ 641,326		$ 641,326		$ 641,326
15	**Earnings**							
16	Operating Revenues							
17	Sale of Electricity	$ 159,492		$ 159,492		$ 159,492		
18	Other Revenues	3,457		3,457		3,457		
19	Operating Revenues	$ 162,950	$ -	$ 162,950	$31,761	$ 194,711	$ 19,758	$ 214,469
20								
21	Operating Expenses							
22	Operation and Maintenance	$ 97,194	($1,033)	$ 96,161		$ 96,161		$ 96,161
23	Depreciation/Amortization	31,260	2,631	33,892		33,892		33,892
24	Other Taxes	7,992		7,992	128	8,120	80	8,200
25	State Income Tax	902	(139)	763	2,752	3,515	1,712	5,227
26	Federal Income Tax	5,066	(511)	4,555	10,108	14,663	6,288	20,951
27								
28	Total Operating Expenses	$ 142,414	$ 948	$ 143,362	$ 12,988	$ 156,351	$ 8,080	$ 164,431
29								
30	Operating Income	$ 20,536	$ (948)	$ 19,588	$ 18,773	$ 38,360	$ 11,678	$ 50,038
31								
32	AFUDC	475		475		475		475
33	Misc Earnings Items	41		41		41		41
34	Earnings	$ 20,970	$ (948)	$ 20,022	$ 18,773	$ 38,794	$ 11,678	$ 50,472
35								
36	**Jurisdictional Return on Rate Base**	3.32%		3.12%		6.05%		7.87%
37								
38	Less Weighted Cost of:							
39	Long Term Debt	2.55%		2.55%		2.55%		2.55%
40								
41	Net amount available for common equity	0.77%		0.57%		3.50%		5.32%
42								
43	Common Equity ratio	49.48%		49.48%		49.48%		49.48%
44								
45	**Jurisdictional Return on Equity**	**1.55%**		**1.16%**		**7.07%**		**10.75%**